



QUARTERLY STATEMENT

1 July to 30 September 2016

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QSC AG

KEY DATA

€ million	01/07/ – 30/09/ 2016	01/07/ – 30/09/ 2015	01/01/ – 30/09/ 2016	01/01/ – 30/09/ 2015
Revenues	95.9	100.0	293.9	305.6
EBITDA	9.3	12.0	29.8	31.7
Depreciation / amortisation ¹	8.3	12.6	26.2	37.5
EBIT	1.0	(0.6)	3.6	(5.8)
Net income (loss)	(0.1)	(1.7)	(0.1)	(7.8)
Earnings per share ² (in €)	0.00	(0.01)	0.00	(0.06)
Free cash flow	2.3	5.3	7.8	2.4
Capital expenditure (capex)	7.2	7.2	14.1	14.6
Capex ratio ³ (in %)	7.5	7.2	4.8	4.8
Liquidity			73.5 ⁴	74.0 ⁵
Shareholders' equity			120.5 ⁴	124.2 ⁵
Long-term liabilities			164.8 ⁴	171.0 ⁵
Short-term liabilities			59.5 ⁴	63.3 ⁵
Balance sheet total			344.8 ⁴	358.5 ⁵
Equity ratio (in %)			34.9 ⁴	34.6 ⁵
Xetra closing price as of 30 September (in €)			1.99	1.51
Number of shares as of 30 September			124,172,487	124,162,487
Market capitalisation as of 30 September			247.1	187.5
Number of employees as of 30 September			1,371	1,507

¹ Including non-cash share-based compensation

² Basic and diluted

³ Ratio of capital expenditure to revenues

⁴ As of 30 September 2016

⁵ As of 31 December 2015

QSC ACCELERATES CLOUD GROWTH AND PERFORMS AS PLANNED IN Q3 2016

Operating business performance in line with expectations. Based on revenues of € 95.9 million, QSC generated EBITDA of € 9.3 million in the third quarter of 2016. Moreover, with EBIT of € 1.0 million the Company posted positive operating earnings for the third consecutive quarter.

Cloud revenues more than double. Revenues in Cloud, the newest segment, grew to € 5.6 million in the third quarter of 2016, up from € 2.3 million in the previous year's period. This growth was driven by the Company's success in marketing its Pure Enterprise Cloud and by a substantial upturn in its IoT project business.

Successful migration of first Outsourcing customers. The Pure Enterprise Cloud has met with a warm reception from existing and new customers alike. QSC's new one-stop Cloud-based offering is already proving itself in practice at the first companies.

Positive free cash flow despite increased capital expenditure. At € 7.2 million, the volume of capital expenditure required to expand the Pure Enterprise Cloud was higher in the past quarter than in the two preceding quarters. QSC nevertheless once again generated a positive free cash flow of € 2.3 million.

Forecast raised for free cash flow. In view of this positive performance, QSC now expects its full-year free cash flow for 2016 to exceed the previous year's figure of € 7.1 million. The Company has upheld its revenue and earnings forecasts without amendment and continues to expect revenues of € 380 million to € 390 million and EBITDA in a range of € 34 million to € 38 million.

"QSC is on track and is growing in those business fields where its future lies. The Cloud business in particular is gaining momentum and revenues are rising from quarter to quarter. With the Pure Enterprise Cloud and our IoT portfolio, we have the right solutions to support medium-sized corporate customers in digitising their businesses."

Jürgen Hermann, CEO

"Despite hiring numerous cloud experts, QSC will achieve its targeted workforce size of 1,350 employees by the end of 2016. By then, it will have implemented the staff cuts of 350 employees defined in the 2015 downsizing programme. In the coming years, we will be pressing speedily ahead with converting our organisational structures in line with our high-growth cloud-based services. During this phase as well, we will be working on further enhancing the efficiency of our organisation."

Stefan A. Baustert, CFO

SUMMARY OF THIRD QUARTER OF 2016

Business performance

Third consecutive quarter with positive operating earnings. The operating business performed in line with expectations in the third quarter of 2016. Based on revenues of € 95.9 million, QSC generated EBITDA of € 9.3 million and EBIT of € 1.0 million. QSC posted positive operating earnings for the third quarter in succession – a visible sign of the success of the cost-cutting programme underway since the beginning of 2015.

The core components of this programme include downsizing the workforce by 350 employees to around 1,350 employees by the end of 2016. As of 30 September 2016, QSC still had 1,371 employees. In the quarter under report, the hiring of 50 new employees, mostly cloud experts, was countered by the departure of 75 employees. By the end of the year, QSC will have largely completed the programme and reached its targeted workforce size despite recruiting further cloud specialists. As previously announced, this will require further one-off expenses in the current fourth quarter – also with a view to the preparation of the 2016 annual financial statements.

Cloud revenues rise by 143%. QSC accelerated its growth in Cloud, its newest segment, with revenues rising from € 2.3 million in the previous year's period to € 5.6 million in the third quarter of 2016. The segment contribution improved to € -0.1 million, up from € -1.0 million in the third quarter of 2015. Comparison with the previous quarter underlines the momentum shown by this forward-looking business field; within just three months, revenues rose by 40%.

Revenues, Cloud

(€ million)

QIII / 2016		5.6
QIII / 2015		2.3

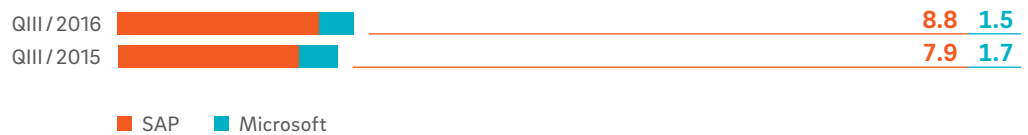
This high pace of growth has been driven by the Company's success in marketing its Pure Enterprise Cloud and IoT portfolio. It was only in February 2016 that QSC presented its full-range cloud-based offering to the public. In the months since then, the Company has gradually extended the range of services covered. QSC has now begun migrating its first Outsourcing customers to the Pure Enterprise Cloud. At the same time, the sales department is acquiring new medium-sized corporate customers.

In its IoT project business, QSC is benefiting from its positioning as a full-stack provider. Its IoT subsidiary Q-loud supports medium-sized companies in all relevant areas – from hardware and software via machine-to-machine communications and cloud operations through to managing customers' contract manufacturing. Viewed together with factors such as solution-driven competence and customer satisfaction, this "highly attractive range of advisory and integration services" led the Experton Group to single out QSC as the "rising star" in its "Industrie 4.0/IoT Vendor Benchmark 2017" survey in autumn 2016.

Consulting on growth course thanks to SAP competence. Revenues in the Consulting segment grew year-on-year by 7% to € 10.3 million in the third quarter of 2016. Due to higher costs of revenues, the segment contribution came to € 1.5 million as against € 2.0 million in the previous year's quarter. QSC generates most of its Consulting revenues by offering consulting services relating to SAP software; these revenues grew by 11% to € 8.8 million. The higher classification granted to QSC by SAP in a recertification process in autumn 2016 underlines the Company's performance capacity in this core business field. QSC is now assessed as "excellent" rather than "advanced" in terms of its SAP HANA platform operations and its activities as an SAP hosting partner.

Revenues, Consulting

(€ million)



Traditional Outsourcing business contracts on schedule. Consistent with expectations, revenues in the Outsourcing segment fell from € 33.1 million in the previous year's period to € 27.6 million in the third quarter of 2016. The segment contribution came to € 6.0 million, as against € 7.4 million in the previous year. When it comes to the outsourcing and assumption of ICT services, QSC has been building since the beginning of 2016 on cloud-based provision of the relevant services with its Pure Enterprise Cloud. To boost its Cloud business, which offers potentially higher margins, the Company has therefore stopped acquiring new customers in its traditional Outsourcing business. With its Pure Enterprise Cloud, QSC is also gradually offering existing customers the possibility of migrating to industrialised, standardised outsourcing.

Revenues, Outsourcing

(€ million)



Telecommunications benefiting from All-IP offering. In its telecommunications business with corporate customers, QSC continues to buck the market trend, with 4% revenue growth to € 22.9 million in the third quarter of 2016. The Company is benefiting from growing demand for All-IP solutions from smaller and medium-sized companies. QSC has been operating a suitable All-IP infrastructure for years now. By contrast, TC revenues with resellers continued to fall in a hotly contested market. Overall, revenues in the Telecommunications segment came to € 52.4 million, as against € 55.0 million in the third quarter of 2015. The segment contribution totalled € 9.9 million, compared with € 11.1 million one year earlier.

Revenues, Telecommunications

(€ million)



Further regulation expected in telecommunications sector. Market watchers are convinced that the Federal Network Agency will significantly cut the termination charges for mobile telephony as of 1 December 2016 and for fixed-line networks as of 1 January 2017. QSC expects reductions of around 40% in each case. Any such move would diminish QSC's revenues by around € 10 million a year. As the Company mostly treats transmission fees as transitory items and charges these on to its customers, earnings will be largely unaffected by this development.

Earnings performance

Gross margin reaches 26% in third quarter. The cost of revenues decreased to € 70.5 million in the third quarter of 2016, down from € 72.4 million in the previous year's period. A sharper reduction in this item was prevented by the one-off expenses previously announced for the forthcoming completion of the cost-cutting programme. As a result of the reduction in revenues, gross profit also decreased to € 25.4 million, down from € 27.6 million in the third quarter of 2015. This corresponds to a gross margin of 26%. While sales and marketing expenses remained stable at € 8.1 million, general administrative expenses fell by € 0.3 million to € 7.3 million.

EBITDA margin of 10%. Consistent with expectations, the EBITDA of € 9.3 million for the third quarter of 2016 fell short of the previous year's figure of € 12.0 million. This development reflects the reduction in revenues and the impact of one-off expenses. At 10%, QSC's EBITDA margin remains in double-digit territory.

As planned, depreciation and amortisation fell significantly to € 8.3 million, down from € 12.6 million in the third quarter of 2015. This made it possible to report positive operating earnings for the third consecutive quarter. EBIT amounted to € 1.0 million, compared with € -0.6 million in the previous year's period. Consolidated net income improved to € -0.1 million, up from € -1.7 million in the previous year's period.

Financial and net asset position

Free cash flow of € 2.3 million. QSC generated a free cash flow of € 2.3 million in the third quarter of 2016, as against € 5.3 million in the previous year. At € 7.8 million for the nine-month period, this key management figure is significantly ahead of the previous year's level of € 2.4 million. The Company calculates its free cash flow as the change in net debt before acquisitions and distributions. The table below shows the relevant parameters at the two balance sheet dates on 30 September 2016 and 30 June 2016.

€ million	30/09/2016	30/06/2016
Liquidity	73.5	71.3
Liabilities under financing and finance lease arrangements	(1.9)	(2.1)
Liabilities due to banks	(156.0)	(155.9)
Interest-bearing liabilities	(157.9)	(158.0)
Net debt	(84.4)	(86.7)

It can be seen that liquidity increased by € 2.2 million to € 73.5 million in the third quarter of 2016. Interest-bearing liabilities showed a slight decrease of € 0.1 million to € -157.9 million. This resulted in a € 2.3 million reduction in net debt to € -84.4 million as of 30 September 2016.

Increased capital expenditure for Cloud infrastructure. Free cash flow remained positive in the third quarter of 2016 as well, and that despite the scheduled substantial increase in capital expenditure. QSC invested € 7.2 million in the period under report, more than twice the amount invested in the second quarter of 2016. The largest share of this expenditure involved expanding QSC's proprietary infrastructure, and here in particular expanding the Pure Enterprise Cloud.

Depreciation reduces value of property, plant and equipment. Total assets came to € 344.8 million as of 30 September 2016, compared with € 358.5 million at the balance sheet date at the end of 2015. On the asset side of the balance sheet, this reduction mainly resulted from depreciation of property, plant and equipment and amortisation of other intangible assets. As a result, the value of long-term assets decreased to € 214.0 million, as against € 224.7 million as of 31 December 2015.

Equity ratio remains stable at 35%. QSC continues to finance itself largely from equity and with long-term liabilities with congruent maturities. At € 120.5 million, shareholders' equity as of 30 September 2016 corresponds to an equity ratio of 35%. Long-term liabilities totalled € 164.8 million at the end of September 2016 and thus fell by € 6.2 million compared with the balance sheet date at the end of 2015. This development was due above all to a reduction in long-term liabilities due to banks.

Outlook

QSC raises free cash flow forecast. As the third quarter of 2016 developed in line with expectations, QSC can confirm the revenue and EBITDA forecasts published at the end of February. In 2016, the Company therefore expects to generate revenues of between € 380 million and € 390 million and EBITDA in a range of € 34 million to € 38 million. For its free cash flow, the Company is now budgeting for a figure ahead of the previous year's level of € 7.1 million. QSC had previously merely expected to generate positive free cash flow.

As previously announced, completion of the cost-cutting programme will require further one-off expenses to be incurred in the fourth quarter of 2016. Moreover, as was already the case in the third quarter of 2016, QSC plans to make substantial investments in expanding its Pure Enterprise Cloud. This way, the Company will create a strong foundation for maintaining the dynamic growth in its Cloud segment in 2017 as well.

Further information

About this report. This document meets the new requirements for quarterly statements pursuant to § 51a of the Stock Exchange Regulations of the Frankfurt Stock Exchange. This document should be read in conjunction with the 2015 Annual Report, which can be found at www.qsc.de/en/investor-relations/ir-publications/. Unless they are historic facts, all disclosures in this report constitute forward-looking statements. These are based on current expectations and forecasts concerning future events and may therefore change over time.

About the Company. QSC AG is digitising the German SME sector. With decades of experience and expertise in the areas of Cloud, Internet of Things, Consulting and Telecommunications, QSC accompanies its customers securely into the digital age. Today already, cloud-based procurement models offer increased speed, flexibility, and full service availability. The Company's TÜV and ISO-certified data centres in Germany and its nationwide All-IP network form the basis for maximum end-to-end quality and security. QSC's customers benefit from one-stop innovative products and services that are marketed both directly and via partners.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Income (unaudited)

Euro amounts in thousands (€ 000s)

	01/07/ – 30/09/ 2016	01/07/ – 30/09/ 2015	01/01/ – 30/09/ 2016	01/01/ – 30/09/ 2015
Net revenues	95,878	100,012	293,903	305,645
Cost of revenues	(70,462)	(72,407)	(216,251)	(223,781)
Gross profit	25,416	27,605	77,652	81,864
Sales and marketing expenses	(8,136)	(8,065)	(24,016)	(25,887)
General and administrative expenses	(7,332)	(7,565)	(23,695)	(24,316)
Depreciation/amortisation				
(including non-cash share-based compensation)	(8,337)	(12,607)	(26,184)	(37,516)
Other operating income	574	179	1,993	778
Other operating expenses	(1,183)	(127)	(2,162)	(707)
Operating profit (loss)	1,002	(580)	3,588	(5,784)
Financial income	32	82	119	277
Financial expenses	(1,325)	(1,568)	(4,178)	(4,711)
Net income (loss) before income taxes	(291)	(2,066)	(471)	(10,218)
Income taxes	203	375	397	2,432
Net income (loss)	(88)	(1,691)	(74)	(7,786)
Earnings per share (basic) in €	0.00	(0.01)	0.00	(0.06)
Earnings per share (diluted) in €	0.00	(0.01)	0.00	(0.06)

Consolidated Balance Sheet

Euro amounts in thousands (€ 000s)

	30/09/2016 (unaudited)	31/12/2015 (audited)
ASSETS		
Long-term assets		
Property, plant and equipment	56,887	62,392
Land and buildings	24,533	25,152
Goodwill	67,077	67,077
Other intangible assets	35,774	41,411
Trade receivables	3,257	4,583
Prepayments	4,614	3,608
Other long-term assets	171	292
Deferred tax assets	21,643	20,207
Long-term assets	213,956	224,722
Short-term assets		
Trade receivables	50,856	48,704
Prepayments	4,351	3,712
Inventories	904	884
Other short-term assets	1,221	6,521
Cash and cash equivalents	73,516	73,982
Short-term assets	130,848	133,803
TOTAL ASSETS	344,804	358,525

	30/09/2016 (unaudited)	31/12/2015 (audited)
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Issued capital	124,172	124,162
Capital surplus	143,120	142,702
Other capital reserves	(3,320)	(2,996)
Accumulated deficit	(143,515)	(139,673)
Shareholders' equity	120,457	124,195
Liabilities		
Long-term liabilities		
Long-term liabilities under financing and finance lease arrangements	452	1,722
Liabilities due to banks	150,777	155,830
Convertible bonds	31	27
Accrued pensions	6,425	6,693
Other provisions	1,609	1,642
Other long-term financial liabilities	4,624	3,879
Deferred tax liabilities	889	1,204
Long-term liabilities	164,807	170,997
Short-term liabilities		
Trade payables	30,655	30,596
Short-term liabilities under financing and finance lease arrangements	1,438	2,761
Liabilities due to banks	5,216	2,140
Other provisions	5,284	8,368
Accrued taxes	1,510	381
Deferred income	3,264	4,020
Other short-term liabilities	12,173	15,067
Short-term liabilities	59,540	63,333
Liabilities	224,347	234,330
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	344,804	358,525

Consolidated Statement of Cash Flows (unaudited)

Euro amounts in thousands (€ 000s)

	01/01/ – 30/09/ 2016	01/01/ – 30/09/ 2015
Cash flow from operating activities		
Net income (loss) before income taxes	(471)	(10,218)
Depreciation and amortisation of fixed assets	25,773	36,967
Non-cash share-based compensation	411	549
Loss from disposal of fixed assets	(3)	(12)
Income tax paid	(2,072)	(339)
Income tax received	389	2,787
Interest received	96	184
Changes in provisions	(2,257)	(6,434)
Changes in trade receivables	(826)	1,640
Changes in trade payables	4,123	(8,720)
Changes in other assets and liabilities	4,884	7,917
Cash flow from operating activities	30,047	24,321
Cash flow from investing activities		
Purchase of intangible assets	(5,160)	(6,757)
Purchase of property, plant and equipment	(12,978)	(11,681)
Proceeds from sale of property, plant and equipment	40	20
Cash flow from investing activities	(18,098)	(18,418)
Cash flow from financing activities		
Dividends paid	(3,725)	(12,416)
Issuance of convertible bonds	4	2
Proceeds from issuance of common stock	17	23
Repayment of loans	(1,601)	(2,705)
Interest paid	(4,516)	(4,354)
Changes in advance payments relating to financing activities	-	(280)
Repayment of liabilities under financing and finance lease arrangements	(2,594)	(3,592)
Cash flow from financing activities	(12,415)	(23,322)
Change in cash and cash equivalents	(466)	(17,419)
Cash and cash equivalents as of 1 January	73,982	87,803
Cash and cash equivalents as of 30 September	73,516	70,384

Segment Reporting (unaudited)

Euro amounts in thousands (€ 000s)

	Telecom- munications	Outsourcing	Consulting	Cloud	Consolidated Group
01/07/ – 30/09/2016					
Net revenues	52,370	27,597	10,286	5,625	95,878
Cost of revenues	(37,755)	(19,890)	(8,423)	(4,394)	(70,462)
Gross profit	14,615	7,707	1,863	1,231	25,416
Sales and marketing expenses	(4,735)	(1,739)	(373)	(1,289)	(8,136)
Segment contribution	9,880	5,968	1,490	(58)	17,280
General and administrative expenses					(7,332)
Depreciation/amortisation (including non-cash share-based compensation)					(8,337)
Other operating income					(609)
Operating profit (EBIT)					1,002
Financial income					32
Financial expenses					(1,325)
Net income (loss) before income taxes					(291)
Income taxes					203
Net income (loss)					(88)

	Telecom- munications	Outsourcing	Consulting	Cloud	Consolidated Group
01/07/ – 30/09/2015					
Net revenues	54,984	33,084	9,625	2,319	100,012
Cost of revenues	(39,683)	(23,261)	(7,262)	(2,201)	(72,407)
Gross profit	15,301	9,823	2,363	118	27,605
Sales and marketing expenses	(4,209)	(2,435)	(327)	(1,094)	(8,065)
Segment contribution	11,092	7,388	2,036	(976)	19,540
General and administrative expenses					(7,565)
Depreciation/amortisation (including non-cash share-based compensation)					(12,607)
Other operating income					52
Operating profit (EBIT)					(580)
Financial income					82
Financial expenses					(1,568)
Net income (loss) before income taxes					(2,066)
Income taxes					375
Net income (loss)					(1,691)

Segment Reporting (unaudited)

Euro amounts in thousands (€ 000s)

	Telecom- munications	Outsourcing	Consulting	Cloud	Consolidated Group
01/01/ – 30/09/2016					
Net revenues	159,903	91,259	30,738	12,003	293,903
Cost of revenues	(116,301)	(64,932)	(25,101)	(9,917)	(216,251)
Gross profit	43,602	26,327	5,637	2,086	77,652
Sales and marketing expenses	(13,972)	(5,449)	(1,159)	(3,436)	(24,016)
Segment contribution	29,630	20,878	4,478	(1,350)	53,636
General and administrative expenses					(23,695)
Depreciation/amortisation (including non-cash share-based compensation)					(26,184)
Other operating income					(169)
Operating profit (EBIT)					3,588
Financial income					119
Financial expenses					(4,178)
Net income (loss) before income taxes					(471)
Income taxes					397
Net income (loss)					(74)

	Telecom- munications	Outsourcing	Consulting	Cloud	Consolidated Group
01/01/ – 30/09/2015					
Net revenues	166,321	104,563	29,439	5,322	305,645
Cost of revenues	(121,056)	(73,534)	(22,904)	(6,287)	(223,781)
Gross profit	45,265	31,029	6,535	(965)	81,864
Sales and marketing expenses	(12,756)	(8,209)	(1,283)	(3,639)	(25,887)
Segment contribution	32,509	22,820	5,252	(4,604)	55,977
General and administrative expenses					(24,316)
Depreciation/amortisation (including non-cash share-based compensation)					(37,516)
Other operating income					71
Operating profit (EBIT)					(5,784)
Financial income					277
Financial expenses					(4,711)
Net income (loss) before income taxes					(10,218)
Income taxes					2,432
Net income (loss)					(7,786)

CALENDAR

Annual Shareholders' Meeting

24 May 2017

Quarterly Figures

8 May 2017

7 August 2017

6 November 2017

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